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MANUFACTURING AND INDUSTRY SECTOR

IN SAUDI ARABIA

FLANDERS INVESTMENT & TRADE MARKET SURVEY



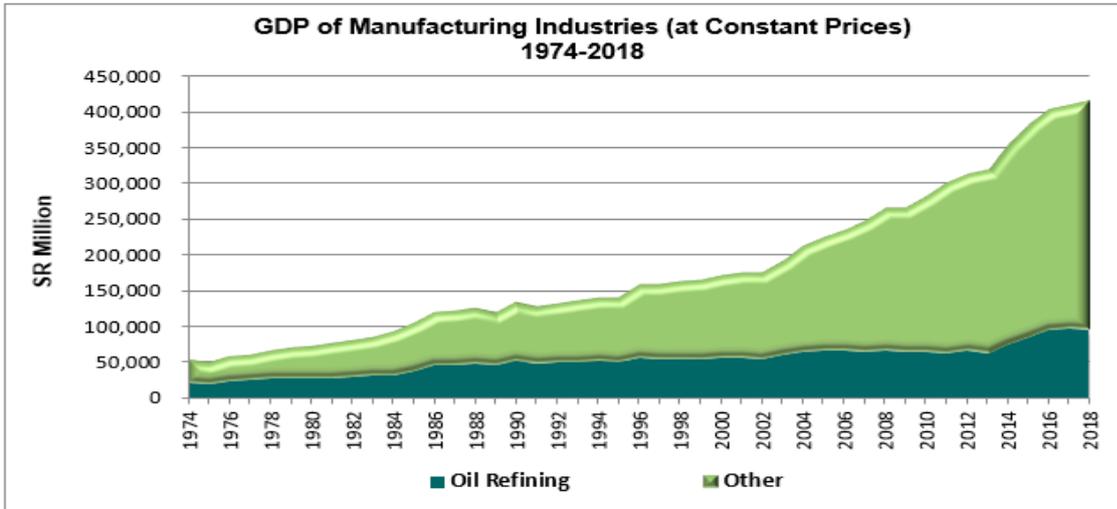
SAUDI ARABIA MANUFACTURING
AND INDUSTRY SECTOR

5.12.2021



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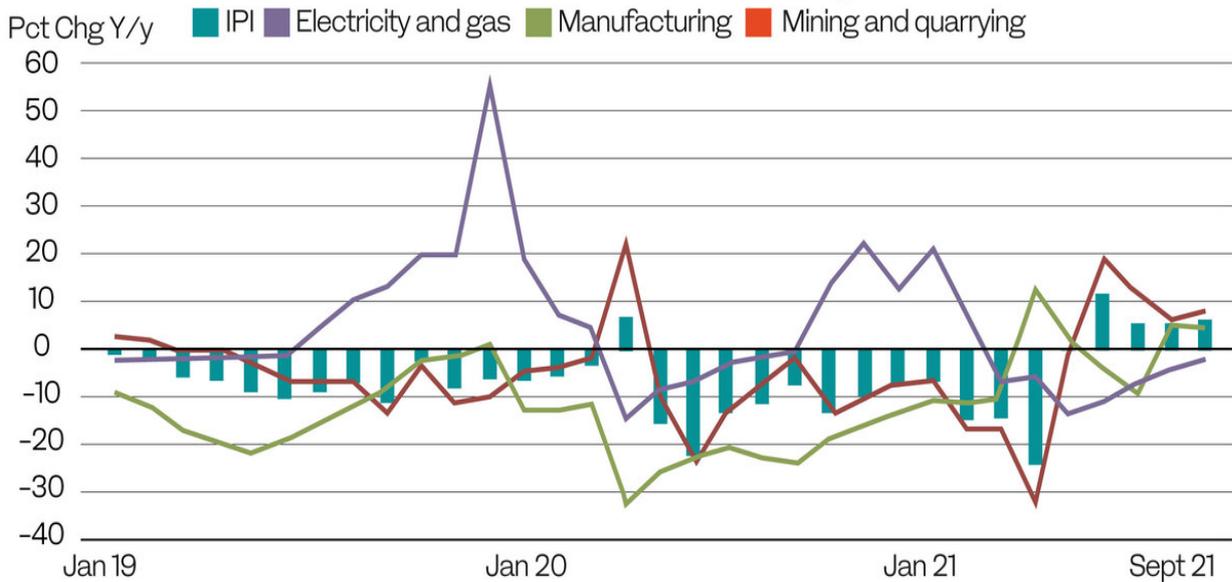
Source: <https://www.sidf.gov.sa/>

As per Arab Newspaper, Saudi Arabia's Industrial Production Index jumped by an annual rate of 6.5 percent in September 2021 due to higher activity in the mining and quarrying sector that is dominated by oil production, data released by Saudi's General Authority for Statistics (Gastat) showed in November this year. The general index has now risen for the fifth consecutive month and the growth rate reached a three-month high.

Production in the mining and quarrying sector, which has 74.5 percent weight in the general index, went up by a yearly rate of 7.6 percent as oil production increased significantly, Gastat said without giving a percentage increase for the oil production. In the previous month, the expansion rate was a lower 6.5 percent.

Oil output increased from 8.9 million barrels a day in September last year to 9.6 million this year, the data showed.

SAUDI INDUSTRIAL PRODUCTION INDEX, JAN '19 - SEP '21



Source: GaStat

ARAB NEWS

3. VISION 2030 AND THE MANUFACTURING SECTOR

The manufacturing sector is one of the pillars included in the Saudi Vision of 2030 plan that supports stakeholders to improve the competitiveness of local products to maintain local market shares with a focus on increasing productivity and quality.

Development of this sector according to the vision is mainly to create a competitive economy and sustainable development Accordingly, Saudi Arabia aims at developing promising industries in food, medicine, and medical supplies, as well as military industries and industries relating to oil, gas and petrochemicals, mining as well as chemicals

According to the SIDF, the national GDP mix for the manufacturing industries sector (excluding oil refining) is becoming more diverse where the chemical products' sector has occupied the lead position this mix of manufacturing industries along with other sectors that such as machinery and equipment, building material products, and food products have also shown growth.

Another plan of the vision is [The National Development Programme \(NIDLP\)](#) focuses on transforming Saudi Arabia into an industrial powerhouse and a global leader in logistical services by leading and guiding growth in four key sectors: Industry, Mining, Energy and Logistics. The program also focuses on the two enabling pillars of local content and the 4th Industrial Revolution (4IR), given their importance towards enabling the main sectors to reach their pre-set strategic objectives.

Through its 33 logistics initiatives, the NIDLP seeks to develop qualitative industries, increase non-oil exports, reduce imports, raise the contribution of the target sectors to GDP, create major employment opportunities, improve the Kingdom's trade balances, maximize local content, and attract foreign investments. The program also seeks to stimulate investments worth more than 1.7 trillion Saudi riyals, raise non-oil exports to more than 1 trillion Saudi riyals, and develop the labor market by creating 1.6 million new jobs.

The program tends to achieve its goals by developing world-class infrastructure for its sectors, designing new policies, and regulations to unlock value, increasing the value from the Kingdom's resources and drastically improving global connectivity and access to markets. All in the aim of developing a sustainable comparative advantage that will place the Kingdom at the forefront of investment attractiveness.

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Since its inauguration in 2019, NIDLP has achieved remarkable progress in international connectivity by adding five new shipping lines to the Kingdom's ports, inaugurating the first locally manufactured fast intercept boat, launching multiple utility-scale renewable energy projects and strides of progress in military equipment as well as the global launch of the "Saudi Made" program.

The Made in Saudi program is the NIDLP initiative led by the Saudi Export Development Authority (Saudi Exports) that aims to help local businesses grow, by encouraging local consumers to buy more locally made products, and helping businesses increase their exports to priority markets.

Under one unified brand, the Made in Saudi program will bring significant opportunities for businesses to expand their reach and promote their products domestically and globally.

Another achievement of NIDLP was the launching of the geological survey programme which is the largest regional geological study to explore opportunities in mining. In addition, NIDLP launched an ambition renewable energy programme and opened the first wind energy project in Domat Al-Jandal located 900km north of Riyadh in



4. KEY PLAYERS IN THE INDUSTRIAL SECTOR

4.1 THE INDUSTRIAL DEVELOPMENT FUND (SIDF)

SIDF was established in 1974 as a government financial institution to realize the objectives, policies, and programs of industrial development in Saudi Arabia. It aimed at supporting the private sector in various industrial fields, financing and developing the industrial sector in coordination with government entities. SIDF paves the way for the private sector to engage in constituting and sustaining a national industrial base effectively and adequately.

SIDF has also introduced a new package of financial products and services through the National Industrial Development and Logistics Program (NIDLP) as a breakthrough in its quest towards reaching Vision 2030's objectives. Among the most important services provided by the Fund are medium and long-term loans to the private industrial sector which led to the establishment of 108 industrial projects in 2019. The NIDLP supports the growth of industry, mining, non-oil energy and logistics to create private sector jobs, boost their contribution to GDP and exports, and promote local content. It provides potential investors with useful context and historical footnotes on the development of Saudi Arabia's industrial ecosystem, and indicates its aspirations for the next 10 years. The NIDLP covers 11 of Vision 2030's 96 objectives, and its 2020 commitments are divided into two categories: legal and regulatory changes, including the encouragement of private sector investment in mining; and capacity development initiatives, such as expanding ports and airports, creating specialist centers devoted to Industry 4.0 technologies and supporting industrial compounds like Jubail Automotive Manufacturing City. It is likely that new goals will be published in 2020 or 2021 to reflect recent developments and achievements.

In 2020, SIDF approved 212 loans worth SAR17.6 billion (\$4.7 billion) benefiting 201 projects in the industrial, mining, energy, and logistics sectors. Small and medium enterprises (SMEs) accounted for 84 percent of the number of loans. During the pandemic, the SIDF also announced a \$1 billion stimulus package that allocates funds to small and medium-size private industrial enterprises. The package allows companies financially burdened by the pandemic to postpone or restructure their loans and access to lines of credit to fund operating expenses for up to three months.

In recent years SIDF's focus was realigned more closely with Saudi Vision 2030, the national development blueprint, and the National Industrial Development and Logistics Program (NIDLP). The fund is set to play a pivotal role in enabling the NIDLP to achieve its goal of boosting investment in new industrial sectors to SR1.7trn (\$453.2bn) by 2030.

By the end of 2019, SIDF expanded its funding to include financing advanced exploration activities in the mining sector. To this end, the development fund provides loans of up to 75% of mining and mineral extraction project costs, including financing advanced exploration activities, such as delineation, as well as mine preparation and drilling. Moreover, SIDF announced it will support added-value services and companies involved in the sustainable development of the sector in all areas of the value chain. Mining expansion is targeted under the NIDLP due to the Kingdom's availability of mineral resources and its advantageous location between three continents. SIDF also introduced new products in 2019, including a working capital financing program for new businesses for investors with tenures of up to 24 months, as well as acquisition finance. While yet to be fully implemented, the latter provides financial backing for a number of items, including the acquisition of specific technology and manufacturing methods, intellectual property, suppliers and clients, and competitors.

For acquisition, SIDF offers either upfront or after the transaction, with a repayment period of up to seven years. It has also been working to automate operations, reducing the time it takes to process applications by 60% in 2019 to four to five months, as well as focusing on customer satisfaction.



The giant oil producer added that SABIC's acquisition comes as part of its long-term downstream strategy to grow its integrated refining and petrochemicals capacity and create value from integration across the hydrocarbon chain. It enhances Saudi Aramco's chemicals strategy through transforming Saudi Aramco into one of the major global petrochemicals players, integrating upstream and refining with SABIC, and expanding capabilities in procurement, supply chain, manufacturing, marketing and sales. The deal also complements Saudi Aramco's geographic presence, projects and partners, and enhances the resilience of cash flows generation.

5. OPPORTUNITIES IN MAJOR INDUSTRIAL CLUSTERS

One of the main objectives of the National Development Strategy for Saudi Arabia's Vision 2030 is to create a sustainable, competitive, and diversified industrial system driven by private sector activity. Achieving this goal is supported by the National Industrial Strategy (NIS), which sets out a program to enhance domestic manufacturing and exports by fostering the development of strategic industries, through the creation of specialized manufacturing clusters involving many investment opportunities.

5.1 PHARMACEUTICALS AND BIOTECH

The NIDLP has also identified the Saudi pharmaceuticals industry as a sector with significant potential for further growth. According to the NIDLP roadmap, SR30bn (\$8bn) worth of pharmaceuticals are expected to be sold in the Kingdom by 2021, a quarter of the MENA total, and yet only 20% of demand is met by local production. In addition to high levels of local demand, the Saudi market has a stable economy with access to finance, an existing regulatory structure and free trade agreements with most of the MENA region. Alongside an economic rationale for expanding manufacturing capacity, the NIDLP recognizes a strategic incentive, in that local production can help protect the country from any future supply shortages. Nevertheless, challenges remain to development, including local sourcing of active pharmaceutical ingredients, delayed disbursements to local manufacturers by the authorities, lengthy registration procedures and a multiplicity of agencies involved in the localization of the industry.

The country's pharmaceuticals industry is primarily orientated towards the production of generics for the local market, and domestic operators face strong competition from international firms in terms of developing higher-value products. The general model for global pharmaceuticals firms is to concentrate their resources on the production of profitable patented medicines; however, this requires major inputs of capital and expertise in high-risk research, making it a difficult market to break into. Nevertheless, progress can be made if research and development (R&D) efforts are consolidated, given that R&D is currently conducted in a patchwork manner by universities and medical centers, according to the NIDLP. In April 2020 Saudi Pharmaceutical Industries and Medical Appliances Corporation (SPIMACO) moved to boost its R&D, signing a marketing and technology transfer deal with international firm Amgen for biotechnologies.

Opportunities lay in bio-medication industry, vaccine production, insulin production and building Bio parks.

5.2 MINING CLUSTER

As part of the Kingdom's broader economic diversification strategy, billions of dollars in public and private investments have been allocated to develop the mining industry in recent years. The driving force behind the sector's expansion is Ma'aden. The diversified business, which is active in the gold, phosphates, industrial minerals and copper concentrates segments, has emerged as one of the largest and fastest-growing companies of its type in the MENA region.

Under the NIDLP, the government has outlined a number of major targets for the expansion of Ma'aden and the mining sector as a whole. Two new industrial cities, a port and an expanded railway network have been built to facilitate these efforts. In addition, Ma'aden is seeking to boost capacity and production, with work under way on new phosphate and gold facilities. While public investment and government-related institutions have taken the

lead in the sector, the authorities are seeking to create a more diversified mining environment in which private companies and foreign investors play a greater role.

Ma'aden was founded by royal decree in 1997 and remained wholly state owned until July 2008 when it launched an initial public offering (IPO). Raising approximately SR9.3bn (\$2.5bn), it was the biggest mining IPO in the MENA region to date. This set off a series of major investments, with the company commissioning eight new mines and 17 processing plants, all of which were operational by 2018. Meanwhile, the company's gold sales grew from 45,000 oz in 2009 to 394,117 oz in 2019. As of December 2019 the company operated six gold, one bauxite and two phosphates mines, in addition to three mines producing low-grade bauxite, kaolin and magnesite.

The most recent extraction facility to come on-line was the Al Khabra phosphates mine, which opened in 2017. The mine is operated by Ma'aden's Wa'ad Al Shamal Phosphate Company – an \$8bn joint venture (JV) between Ma'aden, Mosaic and SABIC – and is located in the Northern Borders region of the Kingdom, forming a key part of the Wa'ad Al Shamal Industrial City.

5.3 CHEMICAL CLUSTER

The chemicals cluster strategy focuses on promoting the growth of specific value chains that support the realization of the Kingdom's Vision 2030 by taking advantage of available natural resources and a qualified national workforce.

Since the late 1970s, the Kingdom's petrochemical industry has focused on converting natural gas into petrochemical products of the highest specifications to compete globally. Now, the focus is shifting towards developing further downstream industries to reduce the import of materials, parts, and components.

The Chemicals cluster continues to target the development of new value chains in specific subsectors such as advanced plastics applications, oil & gas field chemicals, mining chemicals, rubber products, construction chemicals, medical and pharma related products, personal care products, human and animal nutrition additives.

Expansion of Saudi Arabia's downstream industry can be attributed to low domestic energy costs, a ready supply of raw materials, and a rapidly increasing population, in addition to the Saudi Government's commitment to industrial diversification through foreign investment.

With increased investment and technological know-how, the downstream industry in the Kingdom has undergone a major diversification from basic to more sophisticated products.

Through a number of financial incentives and a supportive national policy, the Saudi Government encourages industrial joint ventures or technology licensing to reduce imports and make this industry competitive for export. As such opportunities lay in the manufacturing of chemicals like copolyester ether, fumaric acid and Ultra-high Molecular Weight Polyethylene (UHMWPE)

5.4 AUTOMOTIVE

The development of a domestic automotive industry cluster has been identified as a top initiative by policymakers. There is high demand for vehicles both within Saudi Arabia and the wider MENA region, but the NIDL highlighted that the Kingdom is the only country among the top-20 by demand for new vehicles to be without a local or regional production center. Establishing an auto cluster would not only enable the country to meet domestic demand and boost exports to the region, but also provide support for the country's upstream metals, plastics and chemicals industries.

Currently, there are four international commercial truck manufacturers producing vehicles in Saudi Arabia, three of which have commercial operations in Jeddah, namely Volvo Trucks, MAN and Mercedes Benz. The most recent arrival to the market is Japan's Isuzu Motors, which has been producing commercial vehicles for export at its Dammam facility since 2012. In October 2019 the Saudi National Automobiles Manufacturing Company (SNAM) signed a licensing deal with the South Korean equipment manufacturer SsangYong Motor for the local assembly of the firm's Rexton Sports and Rexton Sports Kahn sport utility vehicles. Under the deal SNAM aims to produce up to 30,000 units of the two models at its plant in Jubail by 2021. Also Batteries Supplier MEBCO having a JV with

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Clarios, is exporting a large volume of batteries around the globe under AC Delco and other brands. In addition, many other aftermarket suppliers already exist in the Kingdom.

Building on this, the NIDLP aims to create an automotive manufacturing cluster in the country that can produce both conventional cars and electric vehicles, while also developing the capacity to manufacture batteries. In August 2019 the country took its first steps towards creating an infrastructure network for electric vehicles with the installation of Schneider Electric charging points at some SASCO filling stations. Furthermore, the Public Investment Fund, the country’s sovereign wealth fund, has made inroads into the development of electric vehicles in the US, claiming a \$2bn stake in the electric vehicle start-up Tesla before shifting its investment focus to Lucid, a Silicon Valley-based firm specializing in electric vehicle battery production.

Saudi Arabia’s transportation needs are steadily increasing, with more than 200,000 kilometers of roadways connecting Saudi cities including 99 tunnels and 5194 bridges, of which the most heavily trafficked is the 25-km King Fahd Causeway linking the Saudi city of Al Khobar to Bahrain, making it the most attractive country in the region for the automotive industry.

Opportunities in the automotive sector lay in manufacturing of light vehicles, battery cells, metal stamping, aluminum foundry tyre and assembling of vehicles.

5.5 FOOD PROCESSING

Local food producers and manufacturers, as well as global firms, are enjoying a boom in Saudi and global firms and benefiting from the outstanding potential of Saudi Arabia, which is experiencing a significant rise in consumption, being a secure country with a low-cost exporting base,

Saudi Arabia is the only market in the Gulf region that can realistically provide investors with substantial long-term growth prospects.

According to the FAO, Saudi Arabia is the largest economy in the Arab world and home to a growing food manufacturing and processing sector as a result of favorable trade agreements, population growth and rapid socioeconomic changes. Investment in the sector is projected to reach \$59 billion in 2021, an increase of approximately 64 percent since 2013, and ranges from local food manufacturers to major multinational companies. Most Saudi food manufacturers depend on imports for food ingredients, and subsequently imported approximately \$2.7 billion worth of intermediate food products in 2020.

In terms of food processing sectors, Saudi Arabia is the biggest dairy consumer among GCC countries, accounting for 60% of the market volume. Similarly, the total consumption of organic, gourmet, and health food products are expected to reach more than \$27 billion in 2022 while the food packaging market is valued at \$21.7 billion according to Foodex experts.

According to the Arab newspaper, domestic, regional and international demands for Saudi food products have been increasing year on year, with seafood, dates and halal foods leading the way. The Kingdom is famed for its authentic halal food products – particularly those from Makkah and Madinah. The Kingdom’s halal food market is currently worth \$6 billion, but it has the potential to take a substantially bigger share of the \$1.3 trillion global halal market. The sector also benefits from a well-developed ecosystem that meets the high standards and growing demands of the expanding marketplace.

Foreign companies can enter the Saudi food manufacturing sector by establishing wholly owned facilities, acquiring, or taking over existing Saudi companies, joint venture partnerships with Saudi investors, entering into licensing agreements with local manufacturers, or by having private labels produced by Saudi food processors. In recent years, several multinational companies have entered the Saudi food processing sector as a result of more demand for packaged food and the opportunity to export duty free to other Arab countries. Most of these companies entered the market via joint ventures with Saudi companies, licensing agreements or by taking over existing Saudi food processing companies. Multinational companies with a presence in the food processing



industry include: Mars Inc., Mondelez International, Cargill, Del Monte, PepsiCo, Heinz, Danone Ltd., Arla Foods Amba, Fonterra's, United Biscuits (UK) Limited, Coro Foods, Unilever, and the Lactalis Group.

Investment opportunities exist for poultry meat, beef, skimmed milk powder, full cream milk powder, block cheese, butter, milk protein concentrate, anhydrous milk fat (AMF), butter oil, and whey powder. Food processing ingredients such as bakery and pastry ingredients juice concentrates, ice cream ingredients, and raw materials are also in high demand for food processing.

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